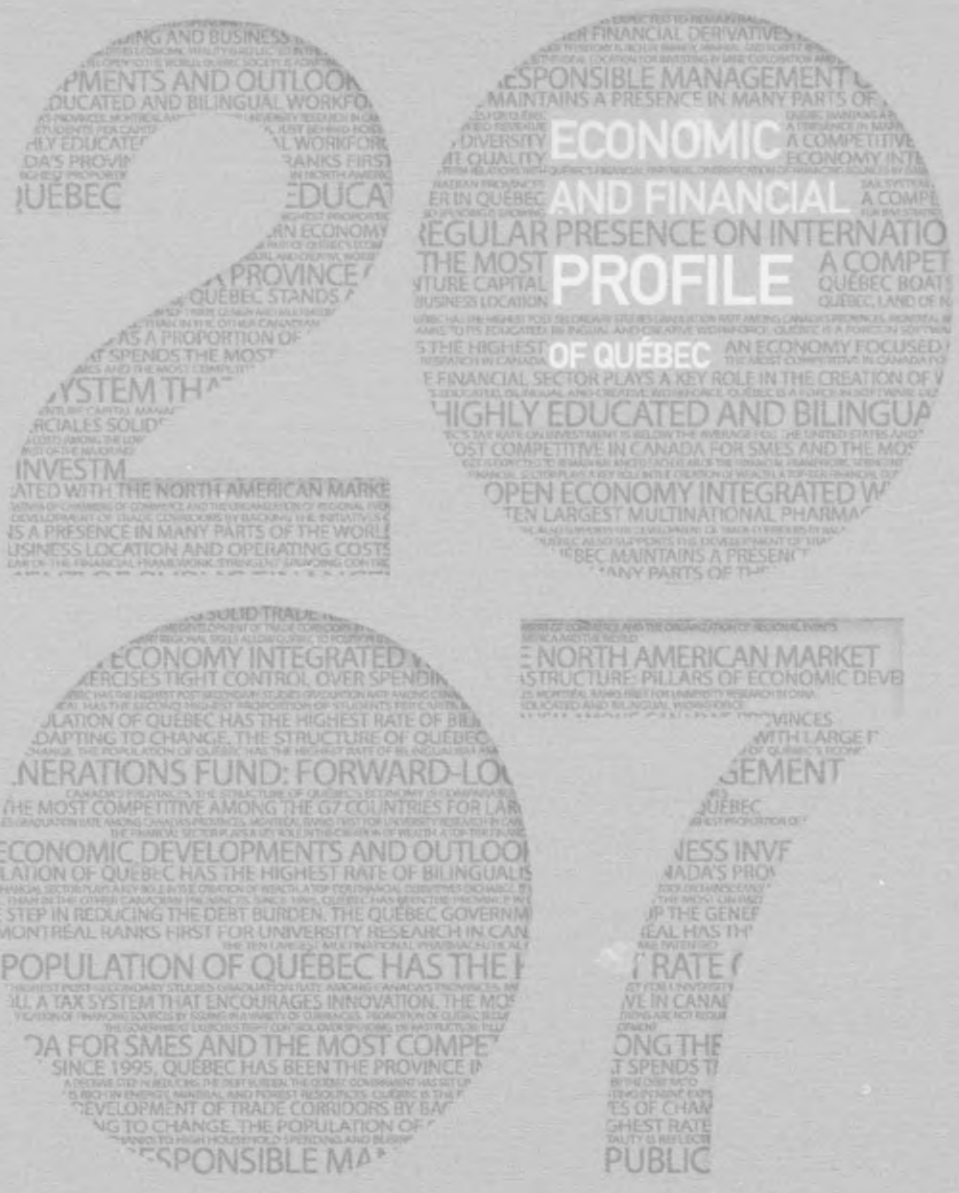

Québec

The ECONOMIC AND FINANCIAL PROFILE OF QUÉBEC - 2007 Edition
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12, rue Saint-Louis, bureau 2.08
Québec (Québec) G1R 5L3

For information, contact:
Secrétariat et coordination
Phone : (418) 691-2250
Fax : (418) 646-0923
Email : sri@finances.gouv.qc.ca

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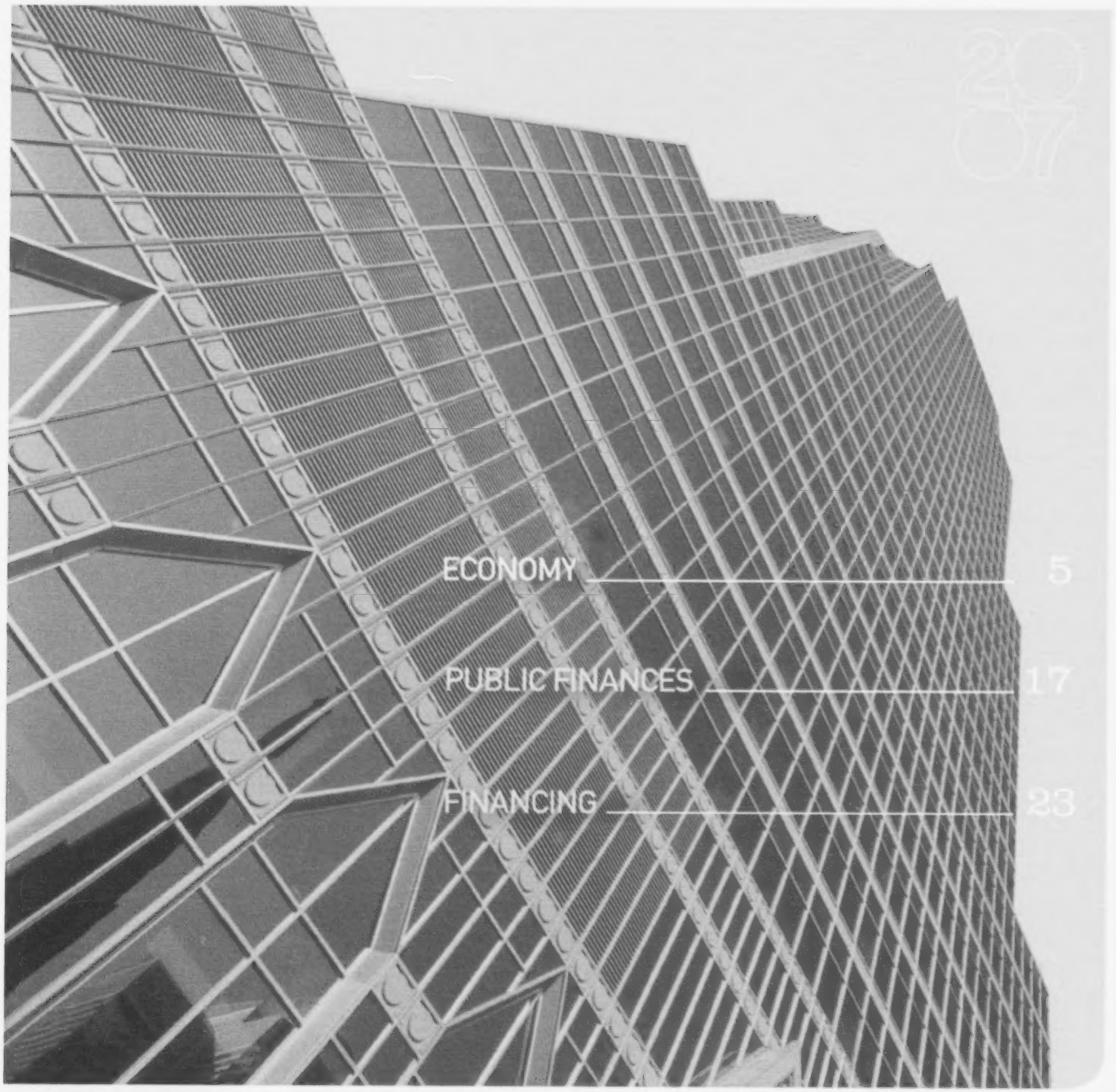
ECONOMIC AND FINANCIAL PROFILE OF QUÉBEC



ECONOMY 5

PUBLIC FINANCES 17

FINANCING 23

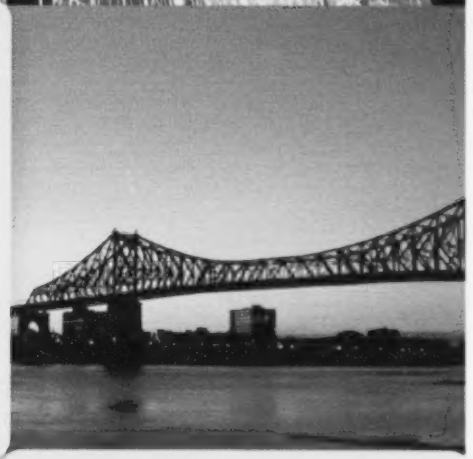
The largest province in Canada, Quebec ranks second in terms of population with 7.7 million people.

As a natural entry point to the North American continent, Quebec has easy access to a market of over 440 million consumers through its participation in the North American Free Trade Agreement (NAFTA).

Investing in Québec means benefiting from a highly educated workforce, favourable tax treatment for investment, and low buisness location and operating costs.

A balanced budget and the creation of the Generations Fund are two key features of Quebec's sound management of public finances.

4000 KM
3000 KM
2000 KM
1200 KM
CANADA
QUÉBEC
VANCOUVER
QUEBEC
MONTREAL
TORONTO
BOSTON
DETROIT
NEW YORK
CHICAGO
WASHINGTON
UNITED STATES
ATLANTA
MEXICO



QUÉBEC, A PRIME
BUSINESS ENVIRONMENT

ECONOMY

Recent Economic Developments and Outlook

SOLID ECONOMIC GROWTH

Québec's economy has grown by an average of 2% per year for the last four years. Domestic demand has been particularly strong, due to sustained household spending and business investment.

- real household expenditures will increase by more than 3% for the sixth straight year in 2007;
- business investment has risen by 51% since 2003.

This economic dynamism is reflected in the job market:

- close to 200 000 jobs have been created in the past four years;
- the unemployment rate is down to 8% in 2006, the lowest level in 30 years;
- since 2004 the employment rate has been above 60%, a record high.

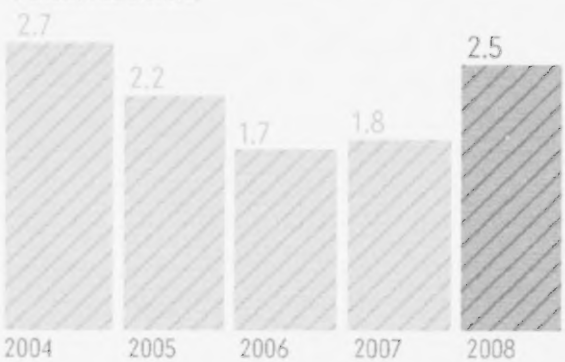
It is forecast that economic growth should reach 1.8% in 2007 and accelerate to 2.5% in 2008 when the U.S. economy picks up.

- the creation of 40 000 jobs on average is expected in these two years.

ECONOMIC INDICATORS
(PERCENTAGE CHANGE)

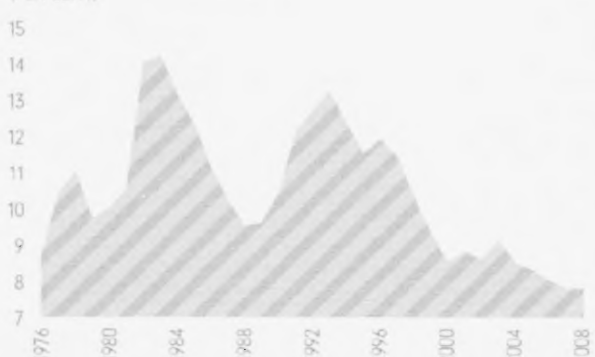
QUÉBEC	2006	2007	2008
Real GDP	1.7	1.8	2.5
Consumption	3.0	3.1	2.4
Housing starts (in thousands)	47.9	48.1	52.7
International exports	2.6	4.0	5.2
Unemployment rate (%)	8.0	7.8	7.8
Job creation (in thousands)	48.1	47.9	56.8
Consumer Price Index	1.7	1.8	1.9
CANADA			
Interest rates (%)			
Treasury bills (3 months)	4.0	4.2	4.2
Bonds (10 years)	4.5	4.5	4.7
Exchange rate (US cents)	88.2	86.0	86.7

REAL GROSS DOMESTIC PRODUCT
(PERCENTAGE CHANGE)



SOURCES : INSTITUT DE LA STATISTIQUE DU QUÉBEC, STATISTICS CANADA AND MINISTÈRE DES FINANCES DU QUÉBEC.

UNEMPLOYMENT RATE
(PER CENT)



SOURCES : INSTITUT DE LA STATISTIQUE DU QUÉBEC, STATISTICS CANADA AND MINISTÈRE DES FINANCES DU QUÉBEC.

An Economy in Evolution

A MODERN ECONOMY

Open to the world, Québec society is adapting to change:

- Québec welcomes 44 000 immigrants per year on average, and they come from every continent;
- Québec has the highest bilingualism rate of all Canadian provinces:
  - 40.8% of Québecers are bilingual;
  - 57% of Montréal inhabitants are bilingual and 15.5% are trilingual.
- 60% of Québec households own a computer, and almost one in two is connected to the Internet.

The structure of the Québec economy is comparable to that of large developed economies:

- the service sector represents 71% of the real GDP;
- the employment rate stands at 60% of the population;
- 60% of Québec women are active in the labour market.

A HIGHLY EDUCATED AND BILINGUAL WORKFORCE

Québec benefits from a very educated workforce:

- 84% of Québec workers have a high school diploma or better;
- Québec's excellent network of colleges produces the highest rate of post-secondary graduates of all Canadian provinces;
- 17% of Québec workers have university degrees.

Expenditures for university education make up 1.7% of Québec's GDP:

- this is higher than the Canadian average, estimated at 1.5% of GDP;
- Québec is ahead of most member countries of the OECD.

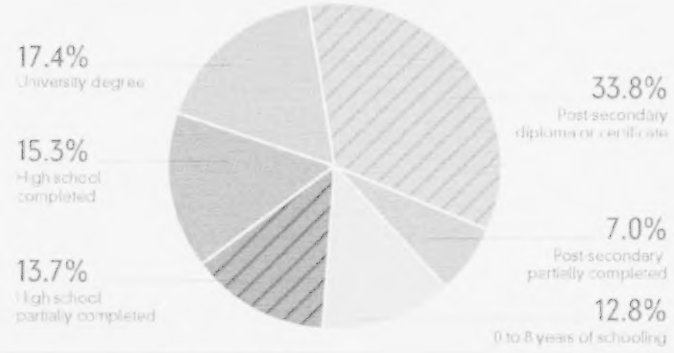
Montréal is a leader in university research in Canada:

- seven of Montréal's major university centres obtained 19% of Canada's total research budget;
- there are over 5 300 university researchers in Montréal;
- Montréal has the second highest proportion of students in North America, just behind Boston.

KNOWLEDGE OF BOTH ENGLISH AND FRENCH
(AS A PERCENTAGE OF TOTAL POPULATION)

SOURCE: STATISTICS CANADA, 2001 CENSUS.

DISTRIBUTION OF QUÉBEC'S WORKFORCE BY LEVEL OF SCHOOLING - 2006



SOURCE: STATISTICS CANADA.

An Economy Based on High Technology

AERONAUTICS

The aeronautics industry is a significant part of Québec's economy:

- 16% of Québec's manufacturing exports come from aerospace and aeronautic construction;
- Québec ranks sixth in the world for production, behind the United States, the United Kingdom, France, Germany and Japan;
- many world-class aeronautical companies have plants in Québec: Bell Helicopter, GE, Pratt & Whitney, CAE, Bombardier, Lockheed Martin, etc.

AERONAUTICS: A WORLD-CLASS INDUSTRY

- Over the next five years Pratt & Whitney Canada will invest $1.5 billion in developing turbomotor-related technology.
- CAE obtains major military contracts, in particular with Canada, the United States and the United Kingdom.
- Bell Helicopter Textron Canada is working on a helicopter prototype, using a unique concept that can produce four separate models from one common module.

INFORMATION AND COMMUNICATIONS TECHNOLOGY: A PILLAR OF THE KNOWLEDGE ECONOMY

- Hybride of Montréal created the visual effects in the film *300*, distributed worldwide.
- Softimage|XSI animation software, developed by Softimage, was used to create the visual effects in the movie *Charlotte's Web*.
- The French company Ubisoft will set up its new film digital creation studio in Montréal.
- In 2007, the Finnish company Eidos announced the opening of a video game development studio in Montréal.

INFORMATION AND COMMUNICATIONS TECHNOLOGY

Because the industry is developed and highly competitive, Québec has very quickly integrated new information and communications technology into its production and exchange procedures for goods and services:

- Québec has a vast network of businesses specializing in telecommunication services: Bell, Telus, Vidéotron, TéléGlobe, Microcell, etc.;
- Québec houses the largest world-class experimental and packaging facilities for semi-conductors, belonging to IBM;
- Québec stands out in the field of software design and multimedia production, thanks to its educated, bilingual and creative workforce.

The Quest for Excellence

LIFE SCIENCES

Québec distinguishes itself in North America with its biopharmaceutical industry:

- Québec has a reimbursement policy within its public drug insurance plan that encourages innovation;
- the ten largest multinational pharmaceutical companies to make licensed products have research centres and manufacturing plants in the province;
- some twenty pharmaceutical companies in Québec specialize in manufacturing and marketing generic drugs.

LIFE SCIENCES: AMONG THE LEADERS IN THE AMERICAS

- Boehringer Ingelheim has a large virology research centre with about a hundred researchers.
- Aventis Pharma, GlaxoSmithKline, Pfizer, Merck Frosst and Wyeth Pharmaceuticals carry out in Québec manufacturing and marketing activities for their drugs.
- Pharmascience manufactures more than 550 generic and licensed drugs, employing over 1 000 professionals.

PLASTICS: A PROMISING SECTOR

- IPL is a leading North American manufacturer of molded plastic products through injection and extrusion.
- Omniplast is the first Canadian manufacturer to offer biodegradable plastic bags with a controlled lifespan.
- Norme Internationale Plastique inc. has sold almost a million of its Tri-Source^{MD} mini trashcans in France and the United States.

PLASTICS PROCESSING

Québec's plastics processing industry has been in full swing since 1995, developing new products that perform better and can be substituted for metal or glass.

- Québec's international exports of plastic products rose by an average of 5.4% per year between 2000 and 2006;
- there are close to 500 businesses in this industry, mainly SMEs, employing almost 30 000 people;
- the packaging, construction and transportation sectors are the main outlets for the Québec plastics industry;
- increasingly strict environmental regulations will foster a growing need for transportation components made of plastic and composite materials.

An Innovative Economy

R&D EXPENDITURES: QUÉBEC STANDS OUT

Québec's R&D expenditures are growing faster than those of the other Canadian provinces:

- Québec's R&D expenditures, expressed as a percentage of GDP, have increased by an average of 4.5% per year since 1983, compared to 2.5% for Ontario and 1.9% for Canada as a whole.
- Since 1995, Québec is the province with the highest ratio of R&D expenditures to GDP in Canada.

A TAX SYSTEM THAT ENCOURAGES INNOVATION

Corporate R&D expenditures enjoy favourable tax treatment:

- the most competitive in Canada for SMEs and the most advantageous of the G-7 countries for large enterprises.

A LEADER AMONG INDUSTRIALIZED COUNTRIES

In 2004, Québec devoted 2.74% of its GDP to R&D:

- a higher proportion than the averages of the OECD, G-7 and European Union.

Québec's objective is to have R&D expenditures reach 3% of GDP by 2010.

GROSS DOMESTIC EXPENDITURES ON R&D, 2004

(AS A PERCENTAGE OF GDP)

Québec	2.74
G-7	2.49
OECD	2.35
European Union	1.77

A LEADER IN VENTURE CAPITAL

Québec still ranks highest in Canada when it comes to managing venture capital, with 50% of capital under management.

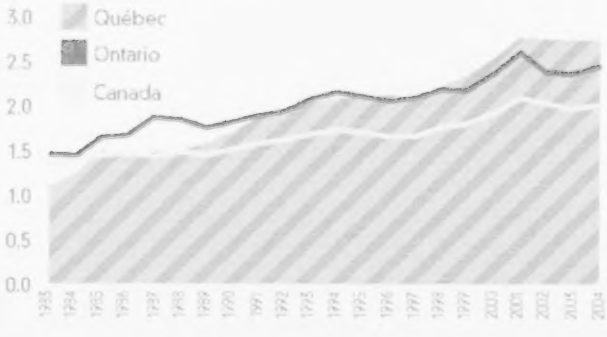
In 2006, Québec received 36% of Canada's venture capital investments:

- almost 60% of the $603 million invested in 2006 came from private and foreign investors.

Since 2003, over 15 new private and foreign funds, with capital under management of close to $3 billion, have invested in Québec.

GROSS DOMESTIC EXPENDITURES ON R&D

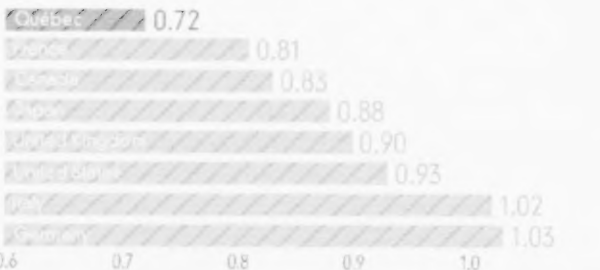
(AS A PERCENTAGE OF GDP)



SOURCE: INSTITUT DE LA STATISTIQUE DU QUÉBEC

NET AFTER-TAX COST OF R&D EXPENDITURES[1] [2]

(IN DOLLARS)



(1) Case of a large company. Net after-tax cost of an expenditure of $1 in R&D, corrected to reflect the level of corporate income tax. The lower the index, the more generous the tax incentives.
(2) For Québec: tax assistance rate in effect as of January 1, 2007. For the other jurisdictions, tax assistance rate in effect in 2005-2006.

SOURCES: OECD, SCIENCE, TECHNOLOGY AND INDUSTRY (STI) OUTLOOK 2006 AND MINISTÈRE DES FINANCES DU QUÉBEC

A Competitive Economy

LOW BUSINESS LOCATION AND OPERATING COSTS

KPMG studies confirm year after year that Québec has some of the lowest business location and operating costs of the main industrialized countries:

- according to the most recent data (2007), these costs are 2.2% lower than the Canadian average, 7.6% lower than in the United States and 10% lower than the average for the G-7 countries;
- Québec stands out with its low labour costs, affordable public services, such as electricity, and competitive tax treatment.

FAVOURABLE TAX TREATMENT FOR INVESTMENT

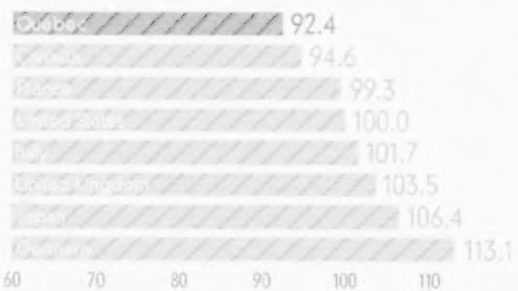
Québec businesses operate under a globally competitive tax system for new investments.

The tax rate on investment in Québec is below the average rates of the United States and the G-7. Moreover, it is one of the lowest in Canada mainly due to:

- a tax rate on business profits among the lowest in North America;
- the rebate of the Québec sales tax on capital goods;
- the gradual reduction of the rate of the tax on capital and its total elimination after December 31, 2010 for all businesses.

INDEX OF BUSINESS LOCATION AND OPERATING COSTS[1]

(UNITED STATES = 100)



(1) Results obtained from KPMG's 2007 Competitive Alternatives 2nd Study. The lower the index, the lower the business location and operating costs within a given jurisdiction.

SOURCES: KPMG AND MINISTÈRE DES FINANCES DU QUÉBEC

MARGINAL EFFECTIVE TAX RATES ON INVESTMENT[1] IN 2011

(PER CENT)

(1) Marginal effective tax rates on investment are indicators of the impact of the tax system on new investments. They represent the effect of all tax expenses and rules affecting the return on capital invested.

SOURCES: FINANCE CANADA AND MINISTÈRE DES FINANCES DU QUÉBEC

An Open and Integrated Economy within the North American Market

AN INTEGRATED ECONOMY WITHIN THE NORTH AMERICAN MARKET

The North American Free Trade Agreement (NAFTA) gives Québec access to a market of more than 440 million consumers:

- since NAFTA came into effect, Québec's international exports have gone from 22% of GDP in 1988 to 33% of GDP in 2006;
- Québec is the seventh largest exporter on the American market;
- Québec's main manufacturing exports to the United States are transport materials, metals, paper and wood products.

BUILDING STRONG COMMERCIAL RELATIONS

- In the future, Québec hopes to consolidate its commercial relations with the Eastern and Mid-Atlantic States by stepping up its actions in the fields of clean energy, biotechnology, security and agri-food.
- Québec also supports the development of trade corridors by supporting Chambers of Commerce initiatives and the organization of regional events.

QUÉBEC IS PRESENT IN MANY REGIONS OF THE WORLD

Québec's diversified industrial structure has allowed its exporters to develop many business relationships throughout the world:

- almost 80% of international exports go to the United States;
- the second largest client, the European Union purchases over 10% of Québec's international exports;
- Québec is profiting from the booming Chinese economy; the value of its exports to that country has risen by an average of 19% each year between 2000 and 2006.

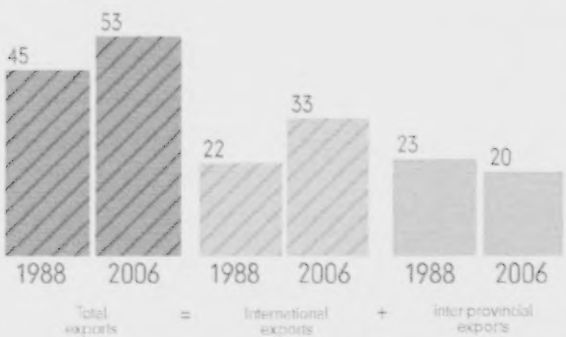
Québec is a world leader in many markets:

- between 1988 and 2006, international sales of aircraft have increased by an average of 17% each year;
- Québec ranks third among aluminum producing nations, and second among exporters.

QUÉBEC'S AVERAGE ANNUAL GROWTH OF MERCHANDISE EXPORTS, 1988-2006
(PER CENT)

SOURCE : INSTITUT DE LA STATISTIQUE DU QUÉBEC

QUÉBEC'S EXPORTS
(AS A PERCENTAGE OF GDP)



SOURCES : STATISTICS CANADA AND INSTITUT DE LA STATISTIQUE DU QUÉBEC

A Diversified Economy with Recognition Abroad

QUÉBEC'S DIVERSITY

- The multiple faces of its territory make Québec's economy the most diversified in Canada. Québec's economic diversity index is 135.1 compared to 130.7 for Canada as a whole. The Québec economy is also more diversified than that of Ontario (index: 125.2).
- Québec is divided into 17 administrative regions. Each one possesses a unique potential.
- Many regional specialties position Québec as a leader in North America and the world.
  - Abitibi-Témiscamingue is known throughout the world for its abundant valuable metals, copper and zinc deposits;
  - Bas-Saint-Laurent has a maritime expertise and stands out in the marine biotechnology sector;
  - Saguenay-Lac-Saint-Jean is a first-line player in aluminum production;
  - Montréal is known worldwide as a leader in the fields of life sciences and video games.

A LEADING-EDGE FINANCIAL SECTOR

Québec and Canada have solid, efficient and transparent financial sectors. These positive attributes are the fruit of efficient harmonization and a policy of constant improvement in the regulatory framework and market monitoring.

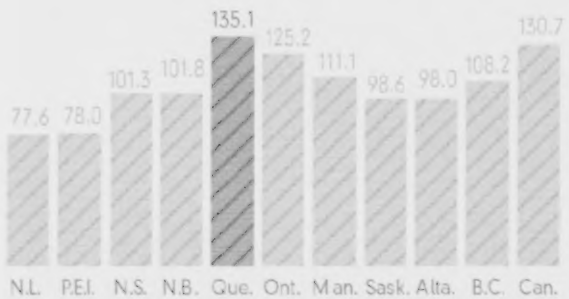
The financial sector is a driver in wealth creation:

- it alone represents 6% of all Québec's economic activity;
- many Québec financial institutions are well-known abroad, among them the Caisse de dépôt et placement du Québec, the largest institutional fund manager in Canada;
- in the Greater Montréal area, 115 international financial centres recruit and retain a highly-qualified workforce.

A FIRST-CLASS EXCHANGE FOR DERIVATIVE FINANCIAL INSTRUMENTS

- The total value of trades on the Montréal Exchange was over 40% higher in 2006 than in the previous year.
- At the beginning of 2007, it listed its shares on the stock exchange.
- In 2007, it announced the creation of CAREX, a new entity dedicated to the Canadian energy market, together with the New York Mercantile Exchange (« NYMEX »);
  - NYMEX holds 10% of the Montréal Exchange shares.

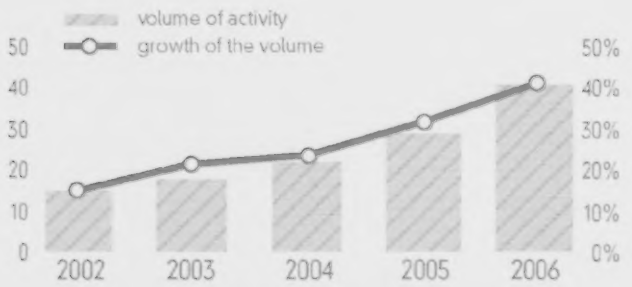
INDUSTRIAL DIVERSITY INDEX OF THE PROVINCES – 2002



SOURCE : STATISTICS CANADA, SPECIAL COMPILATION.

VOLUME OF ACTIVITY AND ANNUAL GROWTH RATE OF THE MONTREAL EXCHANGE

(IN MILLIONS OF CONTRACTS AND IN PERCENTAGE)



SOURCE : MONTRÉAL EXCHANGE.

Sustainable Development

QUÉBEC, HOME OF GREAT NATURAL RESOURCES

Québec's vast territory is bountiful with energy, mineral and forest resources.

- Québec is an ideal place to invest in exploration and mining operations:
  - it is renowned for production of valuable metals such as gold, copper, zinc and nickel;
  - it has the best geological database and an exceptional unexplored mining potential;
  - Québec also has many primary transformation businesses and a modern and dynamic metallurgical industry;
  - according to the Fraser Institute, out of 65 nations worldwide, Québec ranks second among the best places for mining exploration and operations in 2007.
- A country of lakes and rivers, Québec is also a land of forests:
  - Québec's forests cover close to 750 300 km², almost half of a total surface area of 1.7 million km²;
  - Québec has a network of navigable waterways and land routes designed to facilitate the transport of raw materials;
  - currently specialized in the production of pulp, cardboard, paper and softwood lumber, Québec is currently developing new wood engineering products;
  - in 2006, a merger between Domtar and the American giant Weyerhaeuser gave birth to the largest fine-paper manufacturing and marketing company in the world.

A WINNING STRATEGY

Québec's energy strategy for 2006-2015 is decidedly focused on the development of clean energy, namely hydroelectricity and wind power.

These orientations have been integrated into Hydro-Québec's strategic plan, which will bring about:

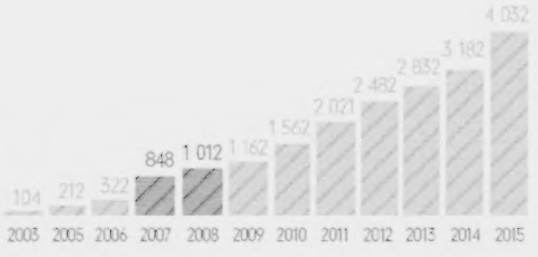
- gradual integration into the Hydro-Québec network of a wind energy production capacity of 4 000 megawatts;
- developing a new hydroelectric production capacity totalling over 4 500 megawatts;
- speeding up the completion of ongoing hydroelectric projects in order to increase production capacity, especially at the Eastmain-1-A Sarcelle-Rupert central and the Péribonka hydroelectric development central. These two projects will add 1 278 megawatts to Québec's electric power production—currently at 35 315 megawatts—and generate 10.7 terawatthours per year;
- implementation of an overall energy efficiency plan which will lead to annual energy savings of over 4.7 terawatthours by 2010 and 8 terawatthours by 2015.

RANKING OF THE BEST PLACES TO INVEST – MINING EXPLORATION AND OPERATIONS, 2006-2007

SOURCE : FRASER INSTITUTE

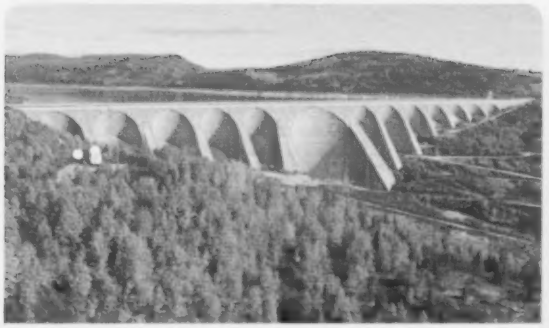
EVOLUTION OF INSTALLED WIND ENERGY CAPACITY, 2003-2015

(IN MEGAWATTS)



SOURCE : MINISTÈRE DES RESSOURCES NATURELLES ET DE LA FAUNE DU QUÉBEC

Hydro-Québec



HYDRO-QUÉBEC HIGHLIGHTS 2006
(IN MILLIONS OF DOLLARS)

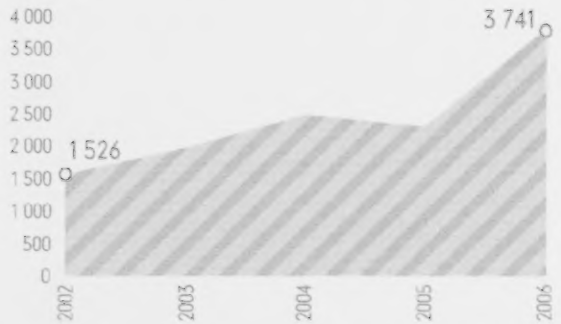
Sales	11 161
Net earnings	3 741
Total assets	63 248
Staff levels (number of people)	22 915
Installed capacity (megawatts)	35 315

ONE OF QUÉBEC'S STRENGTHS

- Created in 1944, Hydro-Québec is a government corporation of which the Québec government is the sole shareholder.
- Hydro-Québec produces, transports and distributes electricity. It uses primarily renewable energy sources, the main one being hydroelectricity. It supports the development of wind power through purchases from private producers.
- In 2006, water power accounted for 97% of total energy production.
- In 2006 the earnings from Hydro-Québec's continuing activities reached $2.8 billion, in addition to earnings of $944 million from relinquished activities, mainly attributable to returns on foreign assets sales.
- Hydro-Québec operates the most extensive electricity transmission network in North America, for the benefit of clients both within and outside Québec. It trades electricity with the networks of neighbouring provinces and the northeastern United States.
- Designed to carry the maximum power from all of its power plants at once, and adapted to Québec's demanding climate conditions, the Hydro-Québec network has a reputation for reliability.

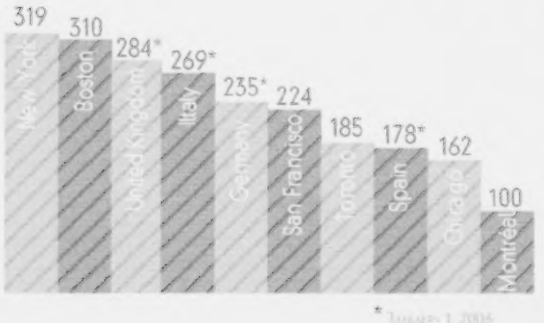
OUR CHOICE IS CLEAR: CLEAN AND GREEN.

HYDRO-QUÉBEC EARNINGS
(IN MILLIONS OF DOLLARS)



SOURCE: HYDRO-QUÉBEC, PUBLISHED EARNINGS FROM ANNUAL REPORTS.

COMPARATIVE INDEX OF ELECTRICITY COSTS FOR LARGE CORPORATIONS
(MONTREAL = 100)

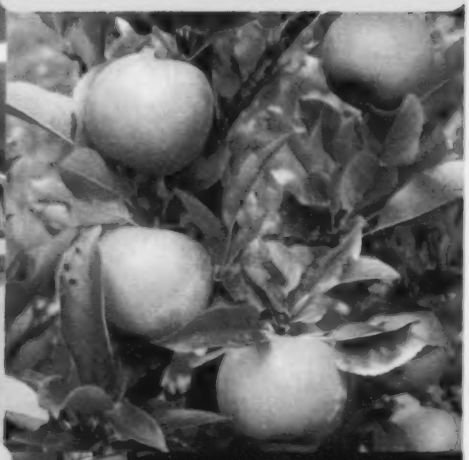


* JANUARY 1, 2006

SOURCES: HYDRO-QUÉBEC, COMPARISON OF ELECTRICITY PRICES IN MAJOR NORTH AMERICAN CITIES, AVRIL 1, 2006 AND EURELECTRIC, ELECTRICITY TARIFFS AS OF 1 JANUARY 2006 (PUBLISHED TARIFFS).

A BALANCED BUDGET

By tightly controlling expenditures, the government is maintaining a zero deficit. Sound management of public finances is an essential contribution to Québec's prosperity.



THE GENERATIONS FUND: GREATER EQUITY FOR FUTURE GENERATIONS

The Generations Fund is the government's chosen vehicle to encourage intergenerational equity. The reduction of the debt burden will ensure the sustainability of quality public services.

A DISCIPLINED AND TRANSPARENT BUDGET

The 2007-2008 will make Québec's economy more competitive and give Québécois a better quality of life.

PUBLIC FINANCES MANAGED
WITH DISCIPLINE AND TRANSPARENCY

2007

PUBLIC FINANCES

Responsible Management of Public Finances

A BALANCED BUDGET

- In accordance with the *Balanced Budget Act*, the budget will be balanced in each year of the financial framework.

TIGHT CONTROL OVER EXPENDITURES

- The government keeps tight control over its expenditures:
  - Compared to the other Canadian provinces, Québec's expenditures have increased an average of 4.2% from 2003-2004 to 2006-2007, whereas the average for Canadian provinces is 6.7%.
- In fiscal year 2007-2008, expenditure growth is limited to 4.1%.
- Our budgetary discipline has led to a reduction in the ratio of program expenditures to GDP:
  - It stands at 18.2% in 2007-2008, one of the lowest ratios in 35 years.

PRIORITIES: HEALTH AND EDUCATION

- Disciplined management of expenditures has allowed significant amounts to be allocated for Québecers' priorities: health and education.

  These fundamental missions of the State have received substantial funding increases in the past years.
- The government is devoting close to 45% of its expenditures to the health sector in 2007-2008.
  - The health budget will increase by $1.4 billion in 2007-2008, a rise of 6.3%.
- Education accounts for 25% of government expenditures:
  - In 2007-2008, education expenditures will go up by $674 million, an increase of 5.3%.

SUMMARY OF CONSOLIDATED BUDGETARY OPERATIONS BUDGET 2007-2008[P]

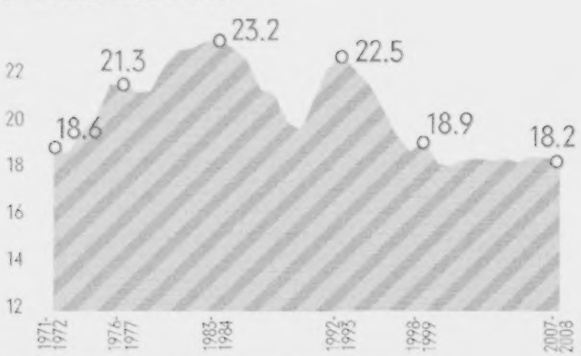
(IN MILLIONS OF DOLLARS)

	2006-2007	2007-2008
BUDGETARY REVENUE	60 305	61 127
BUDGETARY EXPENDITURE		
Program spending	- 51 769	- 53 913
Debt service	- 6 967	- 7 244
TOTAL	- 58 736	- 61 157
NET RESULTS OF CONSOLIDATED ORGANIZATIONS	260	30
Additional deposits to the Generations Fund	- 500[1]	- 200
Allocation to the budgetary reserve	- 1 300	
Use of the budgetary reserve		200
CONSOLIDATED BUDGETARY BALANCE FOR THE PURPOSES OF THE *BALANCED BUDGET ACT*	29	0
Net results of the Generations Fund	578	653
CONSOLIDATED BUDGETARY BALANCE	607	653

P : Preliminary results for 2006-2007 and forecasts for the 2007-2008.
(1) Additional deposit stemming from the sale of Hydro-Québec's interest in Transelec Chile.

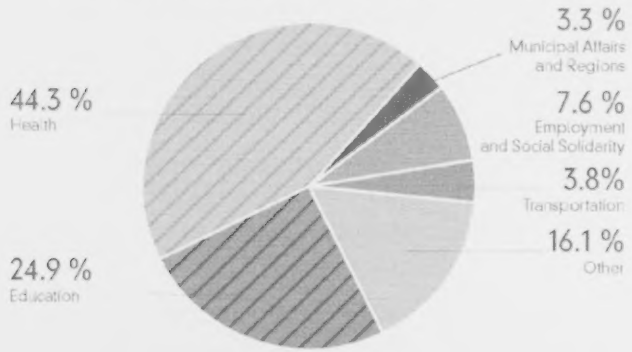
PROGRAM SPENDING[1]

(AS A PERCENTAGE OF GDP)



(1) Preliminary results for 2006-2007 and forecasts for the following years.

PROGRAM EXPENDITURES BY DEPARTMENT, 2007-2008



Responsible Management of Public Finances

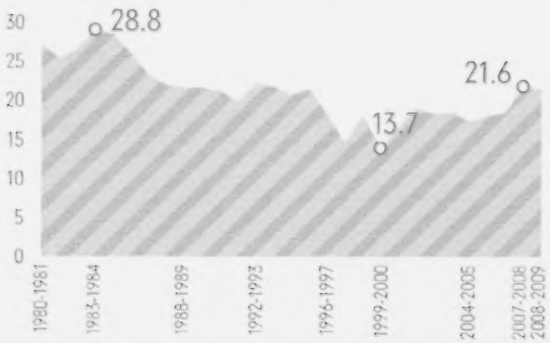
THE CANADIAN FEDERATION

- Québec is part of Canada, a federation created in 1867.
- The jurisdictions of the federal government and the ten provinces are defined in the Constitution:
  - The federal government is responsible for international trade, national defense, currency, monetary policy and employment insurance, among other things.
  - The provinces have exclusive jurisdiction over many fields such as health, education, social services and municipal affairs.
- The various levels of government in Canada collect revenues equivalent to 37% of GDP:
  - 45% goes to the federal government;
  - 55% is collected by provincial governments and local authorities (municipalities and school boards).

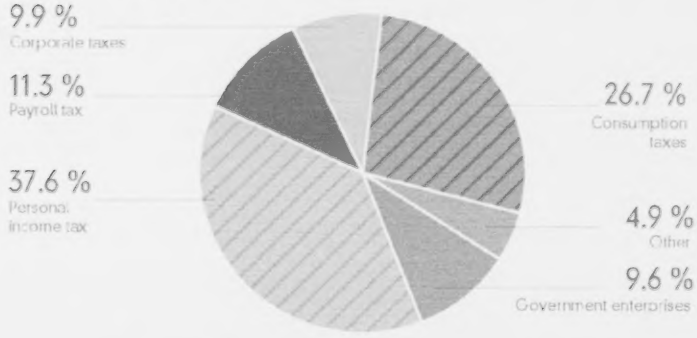
DIVERSIFIED REVENUE SOURCES

- Québec's revenue comes from two sources:
  - own-source revenue (78.4%);
  - federal transfers (21.6%).
- Most of own-source revenue is derived from the personal income tax (38%) and taxes on consumption (27%).
- Québec is one of the seven provinces that receive transfer payments under the Equalization Program. These transfers account for more than half of the federal transfers to Québec.
  - Québec and the nine other provinces also receive transfers for social programs such as health care and post-secondary education.

FEDERAL TRANSFERS TO QUÉBEC
(AS A PERCENTAGE OF BUDGETARY REVENUE)



QUÉBEC GOVERNMENT OWN-SOURCE REVENUE
(BY SOURCE)



A Budget of Discipline and Transparency

GENERAL INCOME TAX REDUCTION

- General personal income tax reduction of $950 million as of January 1, 2008.
- Between 2003 and 2008, Québec will have gone from 9th to 5th position in the provincial ranking of lowest tax burden in Canada.

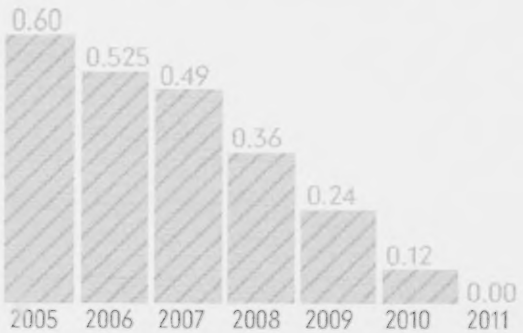
ENHANCED BUSINESS ENVIRONMENT

- The tax on capital will be eliminated after December 31, 2010 for all businesses.
- The rate of the capital tax credit for manufacturing companies is increased from 5% to 10%. This means the elimination of the capital tax for businesses that invest.
- Increase in capital cost allowance rates for investments.
- Reduction of nearly 20% in the administrative burden of small businesses.

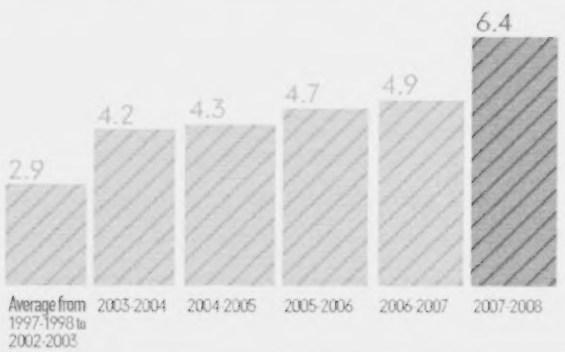
INFRASTRUCTURE INVESTMENTS

- $30-billion, five-year plan for public infrastructure renewal:
  - two thirds of the sums invested will be used to maintain assets;
  - record investments of $6.4 billion for 2007-2008, 30.5% more than in 2006-2007.

PLAN FOR ELIMINATING THE TAX ON CAPITAL
(GENERAL RATE OF THE TAX ON CAPITAL, IN PERCENT)



CAPITAL INVESTMENTS
(GOVERNMENT CONTRIBUTION, IN BILLIONS OF DOLLARS)



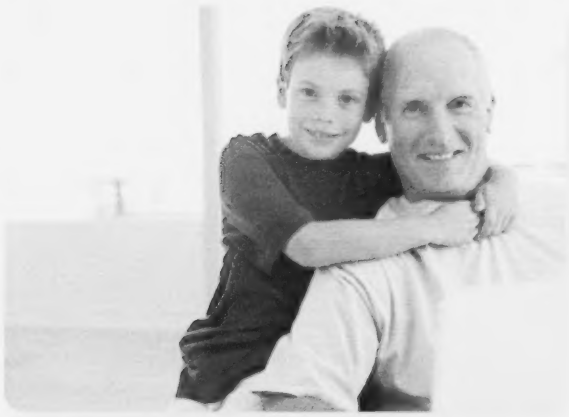
The Generations Fund: a Positive Action for our Future

ACTING DECISIVELY TO REDUCE THE DEBT BURDEN

- The Québec government has set up the Generations Fund to bring the debt/GDP ratio down to 25% in 2026.
- The creation of the Generations Fund will help equity toward future generations.
- The Act creating the Generations Fund sets precise targets to be met with regard to the debt/GDP ratio:
  - 38% by March 31, 2013, 32% by March 31, 2020, 25% by March 31, 2026.

BANKING ON WATER, QUÉBEC'S BLUE GOLD

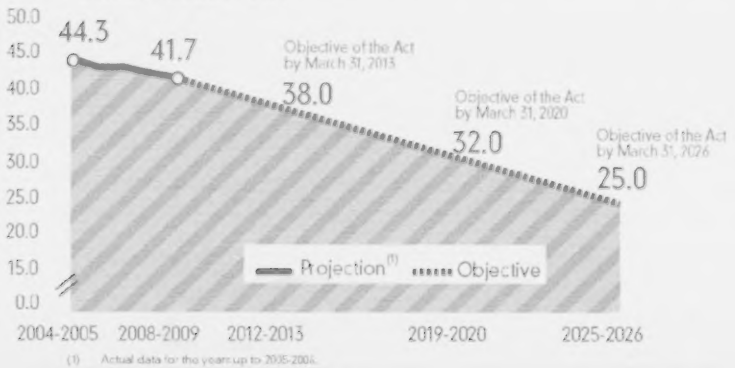
- The main revenue source of the Generations Fund is the royalties from one of Québec's abundant resources: water.
  - Royalties from Hydro-Québec and private electricity producers are deposited in the Fund.
- Thanks to Hydro-Québec, an additional $700 million is deposited into the Generations Fund.
  - $500 million from the sale of a foreign asset, deposited in February 2007;
  - $200 million announced in the 2007-2008 Budget.
- Between 2010-2011 and 2025-2026, the government will deposit an additional average of $400 million per year into the Generations Fund.
  - These new contributions will be derived from Hydro-Québec's increased profits on electricity exports.



NEARLY $42 BILLION IN 2026 FOR DEBT REPAYMENT

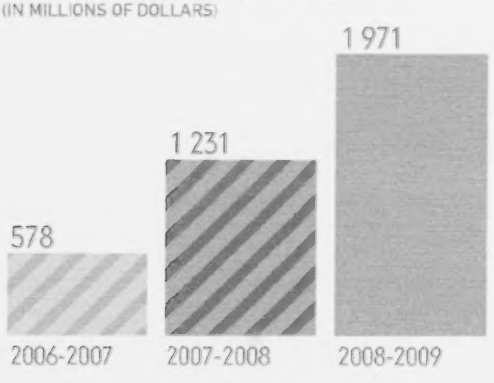
- The Caisse de dépôt et placement du Québec manages the assets of the Generations Fund.
- As of March 31, 2007, the Generations Fund's balance totalled $578 million:
  - It should reach almost $2 billion by March 31, 2009.
  - By 2026, $41.7 billion will have accumulated in the Generations Fund.
- This unprecedented initiative reflects the government's commitment to maintain the level and quality of public services that Québecers have come to rely on.

REDUCTION IN TOTAL GOVERNMENT DEBT
(AS A PERCENTAGE OF GDP)



(1) Actual data for the years up to 2005-2006.

THE GENERATIONS FUND'S BALANCE
(IN MILLIONS OF DOLLARS)



QUÉBEC CONTINUES TO DIVERSIFY ITS SOURCES OF FINANCING

Québec is constantly seeking to diversify its sources of financing. In January 2006, Québec became the first foreign government to issue long-term bonds on the Mexican market. A year later, it made a first issue in Hong Kong dollars.

AN ONGOING AND ACKNOWLEDGED PRESENCE ON INTERNATIONAL MARKETS

The financial magazine *EuroWeek* awarded Québec prizes for transactions in US dollars and euros carried out in 2001, 2002, 2003 and 2005. Moreover, the 2005 Québec issue in Swiss francs won a prize from the magazine *International Financing Review*.

QUÉBEC TAKES ADVANTAGE OF FAVOURABLE CONDITIONS FOR LONG-TERM ISSUES IN CANADA

The government of Québec has issued bonds on the Canadian market with some of the longest maturities in Canada. In 2006-2007, it made over $2.9 billion worth of borrowings with a maturity of 50 years or more.

A MAJOR PLAYER
ON CANADIAN AND INTERNATIONAL
FINANCIAL MARKETS

2007

FINANCING

Financing Programs

CONSOLIDATED REVENUE FUND AND FINANCING FUND

- The financing program is designed essentially:
  - to repay maturing borrowings;
  - to contribute to a sinking fund for future payment of retirement benefits to public-sector employees;
  - to grant loans to certain consolidated organizations and government corporations through the Financing Fund.

FINANCEMENT-QUÉBEC

- Financement-Québec is a government-owned corporation that borrows on financial markets to meet the needs of the health and education networks.
  - by combining their funding in this way, these organizations benefit form lower borrowing costs;
  - the Québec government guarantees the borrowings of Financement-Québec.

HYDRO-QUÉBEC

- Hydro-Québec's borrowings are guaranteed by the Government of Québec.

Financing Programs
CONSOLIDATED REVENUE FUND AND FINANCING FUND
(IN MILLIONS OF DOLLARS)

	2006-2007	2007-2008	2008-2009
CONSOLIDATED REVENUE FUND			
Net financial requirements (surplus) (1)	257	-500	-500
Repayment of borrowings	5 154	5 110	5 603
Change in cash position	-2 684	-6 067	0
Retirement plans sinking fund	4 440	4 876	5 334
Pre-financing	6 069	0	0
TOTAL CONSOLIDATED REVENUE FUND	13 236	3 417	10 437
FINANCING FUND (2)	1 579	1 750	2 000
TOTAL	14 815	5 167	12 437

FINANCEMENT-QUÉBEC
(IN MILLIONS OF DOLLARS)

	2 529	2 000	2 000

HYDRO-QUÉBEC
(IN MILLIONS OF DOLLARS)

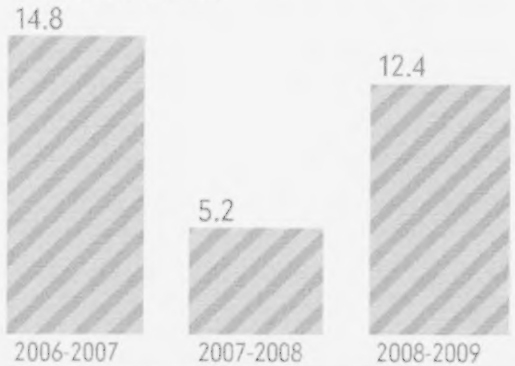
	2006	2007	2008
	3 450	1 120	1 754

N.B. Preliminary results for 2006-2007 and forecasts for subsequent years. A positive number indicates a financial requirement; a negative number, a source of financing.

(1) Excluding consolidated organizations.

(2) The Financing Fund makes loans to certain consolidated organizations and government corporations.

FINANCING PROGRAMS
CONSOLIDATED REVENUE FUND AND FINANCING FUND
(IN BILLIONS OF DOLLARS)



FINANCEMENT-QUÉBEC
(IN BILLIONS OF DOLLARS)

High Credit Quality

CREDIT RATINGS

AGENCY	RATING	PERSPECTIVE
Moody's	Aa2	Stable
Standard & Poor's	A+	Positive
Fitch	AA-	Stable
Dominion Bond Rating Service	A (high)	Stable
Japan Credit Rating Agency	AA-	Stable

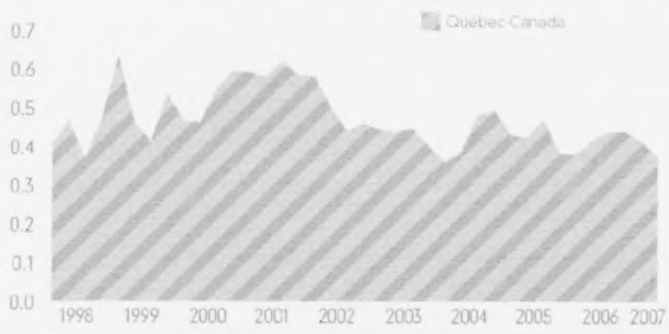
IMPROVEMENT IN CREDIT RATINGS

- In 2006 two credit agencies raised Québec's credit rating.
  - Moody's raised it twice:
    - In June it went from A1 to Aa3;
    - In November it was raised to Aa2;
  - DBRS raised the rating from A to A (high) in June.

COMMENTS FROM CREDIT AGENCIES

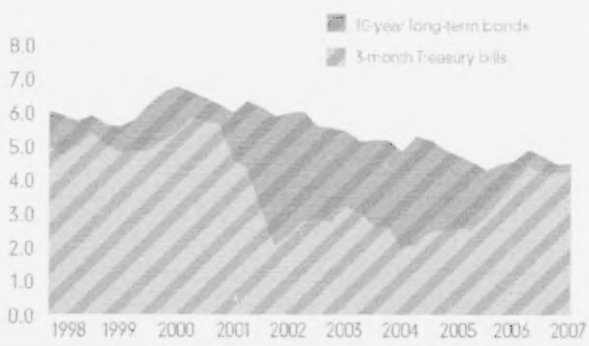
- Moody's, June 2006:
  - "Progress in meeting fiscal goals in recent years has reflected successful implementation of expenditure controls and increased federal transfers."
  - "Of key importance to the improvement in credit quality is the government's development of a clear strategy for debt abatement."
- Standard & Poor's, June 2006:
  - "The ratings on the Province of Québec are supported by: [...] the province's commitment to reduce its overall debt burden in the long term through deposits in its newly created Generations Fund."
  - "The ratings on the Province of Québec are supported by: [...] the province's large and well-diversified economy, which benefits from strong manufacturing and service sectors."

YIELD SPREAD ON 10-YEAR LONG-TERM SECURITIES
(PER CENT)



SOURCE : PC-BOND.

YIELD ON QUÉBEC SECURITIES
(PER CENT)



SOURCES : PC-BOND ET MINISTÈRE DES FINANCES DU QUÉBEC.

An Important Issuer on the Canadian Market

HIGH-LIQUIDITY PUBLIC OFFERINGS

- Public offerings form the majority of government transactions on the Canadian market.
- In order to bolster liquidity, the government issues benchmark securities and reopens them several times until the amount outstanding is optimal.

DIVERSIFICATION BY MATURITIES

- Québec borrows at all maturities, from 5 years to over 50 years.
- In 2006-2007, $2.9 billion in borrowings were taken out with maturities of 50 years and more. One of these borrowings matures in 2065.

A REGULAR MATURITY SCHEDULE

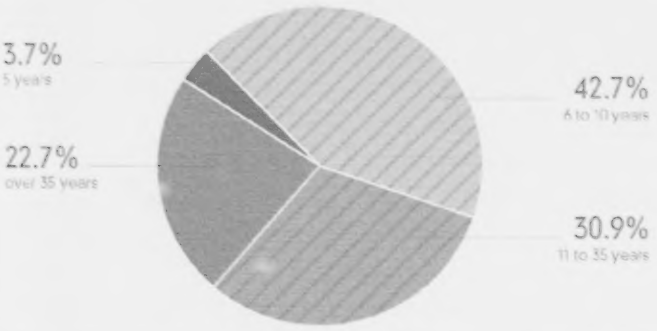
- Diversifying loans by maturity gives Québec a smooth refinancing schedule, which ensures a regular presence on the financial markets.
- The average debt maturity is around 12 years.

BENCHMARK ISSUES IN CANADA

	COUPON %	MATURITY	OUTSTANDING (in millions of dollars)
Short-term	5.50	2009	2 498
	6.25	2010	2 631
	6.00	2012	2 122
Medium-term	5.25	2013	2 152
	5.50	2014	2 500
	5.00	2015	2 500
	4.50	2016	3 000
	4.50	2017	1 500
Long-term	9.375	2023	2 202
	6.00	2029	2 757
	6.25	2032	4 200
	5.75	2036	4 085
	5.00	2038	1 500
Very-long-term[1]	5.00	2051	420
	Various	2056	1 500
	4.70	2067	150
	6.35	2065	915

(1) Private borrowings in Canadian dollars.

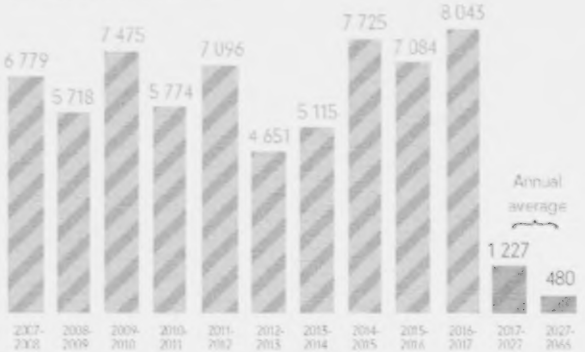
BORROWINGS ISSUED IN 2006-2007 BY MATURITY[1]



(1) PRELIMINARY RESULTS

MATURITY OF THE DEBT AS OF MARCH 31, 2007[1]

(IN MILLIONS OF DOLLARS)



N.B. DIRECT DEBT OF THE CONSOLIDATED REVENUE FUND AND DEBT INCURRED IN ORDER TO MAKE ADVANCES TO THE FINANCING FUND.

(1) PRELIMINARY RESULTS.

A Regular Presence on the International Markets

ISSUES IN U.S. DOLLARS

COUPON %	MATURITY	OUTSTANDING (in millions of US dollars)
5.75	2009	1 000
6.125	2011	1 000
4.875	2014	1 000
4.60	2015	1 000
5.00	2016	1 250
5.125	2016	1 500
7.50	2025	1 000
7.125	2024	1 000
7.50	2029	1 500

ISSUES IN EUROS

		OUTSTANDING (in millions of euros)
5.625	2011	1 500
4.25	2013	1 000
3.625	2015	1 500
3.375	2016	1 500

ISSUES IN OTHER CURRENCIES

MARKET			OUTSTANDING (in millions of currency units)
YEN	3.00	2009	100 000
	1.60	2013	50 000
SWISS FRANC	3.50	2008	500
	2.25	2015	500
	2.625	2017	500
AUSTRALIAN $	6.00	2009	200
	5.75	2015	450
NEW ZEALAND $	6.75	2015	300
MEXICAN PESO	8.27	2016	1 500
HONG KONG $	4.50	2012	750

DIVERSIFICATION BY MARKETS

- A regular presence on the principal markets (Canada, U.S., Europe, Asia and Australia):
  - with large issuances;
  - and reopening existing issuances.
- Québec's presence on foreign financial markets dates back to the end of the 19th century, more specifically to 1874, in London.

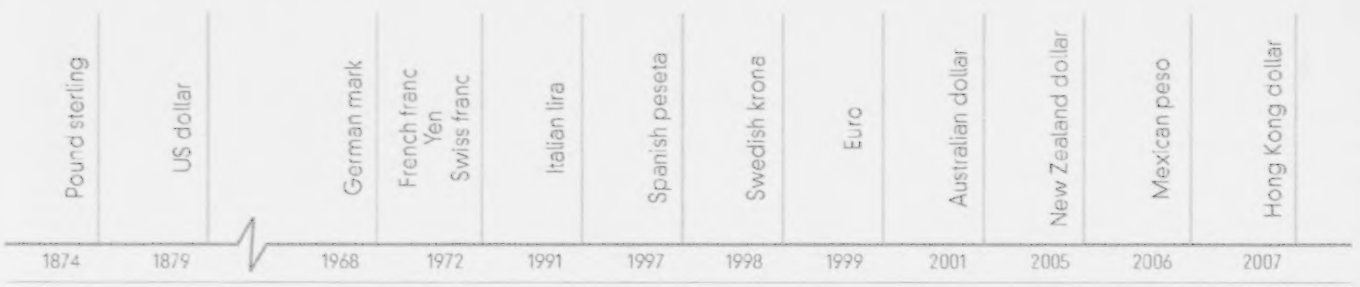
ENSURING LIQUIDITY

- Long-term relations with Québec's financial partners.
- Diversification of funding sources with issues in different currencies.
- Promotion of Québec securities:
  - promotional documents;
  - meetings with investors;
  - involvement of banks and brokerage firms in these activities.

FINANCING ACTIVITIES MADE EASIER IN SOME COUNTRIES

- In 2001, the Bank for International Settlements (BIS) ruled that foreign regulatory authorities could assign a weighting of 0% to Québec securities, which means that financial institutions do not have to maintain capital reserves when they hold Québec securities.
  - Luxemburg, Belgium, France, the Netherlands, Australia and Italy now assign a weighting of 0% to Québec securities, which facilitates financing activities in those countries.

LONGSTANDING PRESENCE ON FOREIGN MARKETS
(DATE OF THE FIRST QUÉBEC BOND ISSUES BY CURRENCY)



Debt Management

TOTAL DEBT

- The total government debt includes the consolidated direct debt and the net retirement plans liability.
- As of March 31, 2007, the total government debt amounted to $122.4 billion.

MINIMIZE COST AND RISK

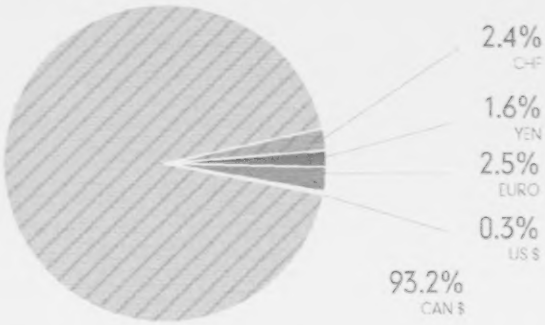
- The government's debt management strategy is aimed at minimizing cost while limiting the exchange rate and interest rate risk:
  - borrowings are made where funds are available, at the lowest possible cost;
  - interest rate and currency swaps and futures contracts are used to achieve the desired debt proportions:
    - by currency;
    - by interest rate.
- Debt management allows the government to save money on debt service costs.

TOTAL GOVERNMENT DEBT AS AT MARCH 31, 2007

(IN BILLIONS OF DOLLARS)

Direct debt	90.4
Net retirement plans liability of public and parapublic sector employees	32.6
Less: Amount accumulated in the Generations Fund	0.6
Total	122.4

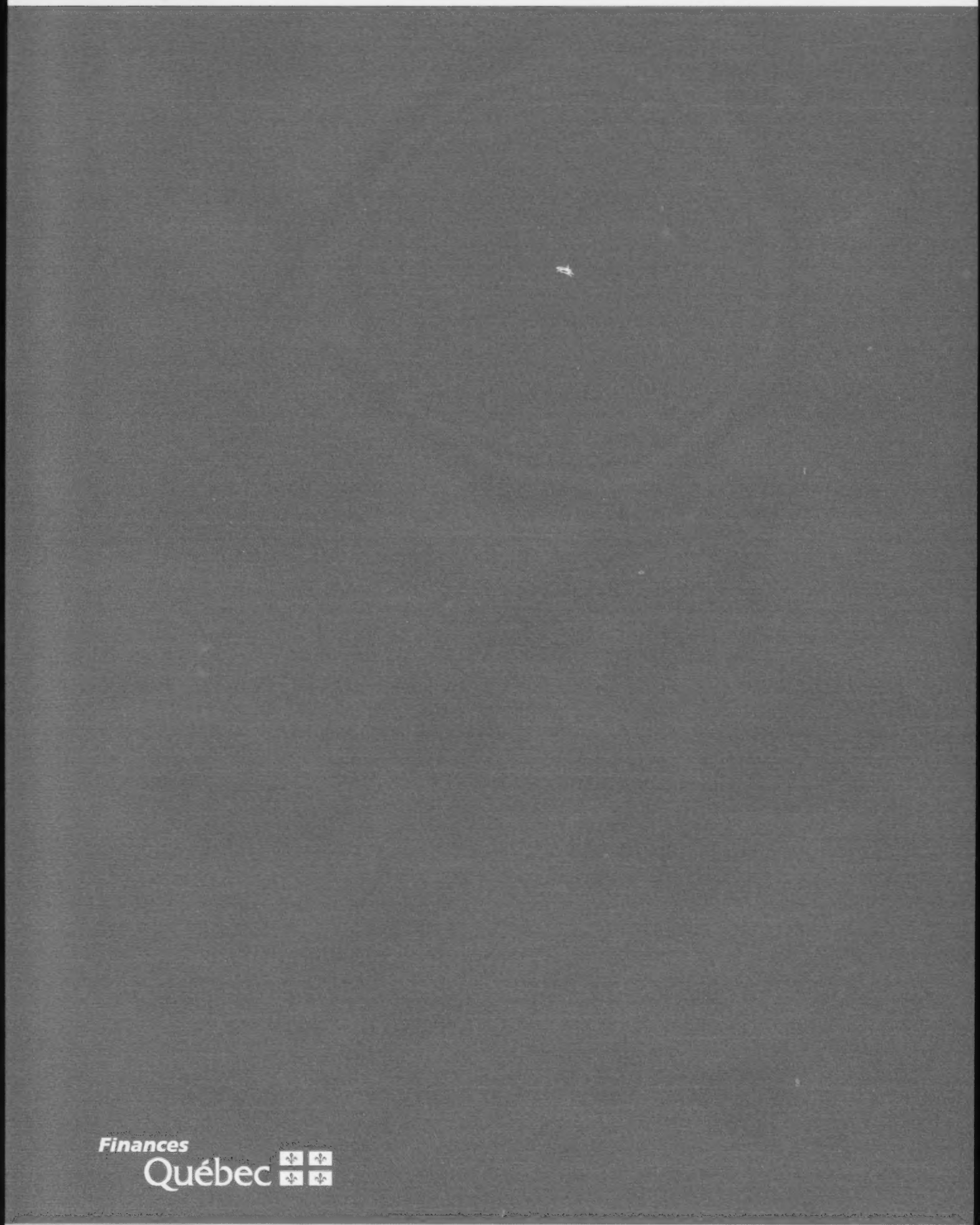
STRUCTURE OF THE TOTAL DEBT BY CURRENCY AS AT MARCH 31, 2007[1]



(1) PRELIMINARY RESULTS.

STRUCTURE OF TOTAL DEBT BY INTEREST RATE AS AT MARCH 31, 2007[1]

(1) PRELIMINARY RESULTS.



Finances
Québec